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United Nations Office for Project Services

Progress report of the Executive Director on the activities of the United Nations Office for Project Services*

Summary

The present report is submitted pursuant to Executive Board decision 2004/15 of June 2004. The document covers business projections for 2004 and beyond, initiatives to overcome potential obstacles in business acquisition and diversification and provides updates on change management.

Elements of a decision

The Executive Board may wish to:

(a) take note of the Progress Report of the Executive Director, of the financial projections and of the projection of the fund balance roll-forward;

(b) take note of the preliminary comments of the United Nations Office for Project Services (UNOPS) on, and response to, the report of the United Nations Board of Auditors which will be formally presented to the Executive Board in January 2005; and

(c) take note of the progress made by UNOPS in implementing change management to address concerns expressed by the external Board of Auditors and enhance the UNOPS business portfolio.

* The collection of data required to present the Executive Board with the most current information has delayed submission of the present document.

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I. Introduction

1. The present report is submitted pursuant to Executive Board decision 2004/15 of June 2004.

2. Pursuant to Executive Board decision 95/1 of 10 January 1995, the present report is based on documentation submitted to and reviewed by the Management Coordination Committee (MCC).

II. Analysis of UNOPS year-to-date performance

3. UNOPS has proceeded with the realignment of its existing portfolio of projects to reflect the new client service structure, revised its procurement division functions and structure and, at the same time, embarked on a major financial data reconciliation and cleanup exercise. Several years of erosion in the accuracy and reliability of financial systems, exacerbated by challenges faced with the introduction of ATLAS, led to a situation of incomplete data availability, with data being compiled in multiple systems using differing definitions underlying data collection. This situation is now being resolved though the combined efforts of Finance, IT and the Atlas project teams. UNOPS is presenting a conservative business forecast based on the data entered into the system so far, as the first round of data cleansing and entry is still in progress.

A. Delivery, revenues, expenditure and fund balances
(see table 1, annexed)

4. Cumulative trends for 2004 delivery and revenues from the portfolio of projects are as follows. An average fee level of 6.85 per cent generated on project delivery is used as the revenue projection basis:

Figure 1. 2004 project portfolio delivery to mid-August 2004 (in millions of dollars)

2004	Delivery	Revenue (6.85 per cent)
30 April	138	9.5
30 June	246	16.85
Mid-August	281	19.24

In relative terms, the comparative gap between the 2003 and 2004 levels of delivery is narrowing. The end-2004 project revenue forecast is $29.48 million, based on a projected level of project delivery of $429 million. An additional revenue for services delivered of at least $9.7 million is projected to be generated through (a) the IFAD loan portfolio; (b) services to the Global Alliance on Improved Nutrition and the Global Fund for HIV/AIDS, Tuberculosis and Malaria; and (c) income derived from rental of Chrysler building premises.

5. Total revenue for 2004 is projected at $39.18 million, subject, however, to several caveats. First, the project revenues reported to date are based on data entered into Atlas. But those data are incomplete. There is a backlog of projects and project amendments still to be entered into the system, and corrections to be made to existing data, including entry of imprest reconciliations not so far included.

6. These revenue projections do not take into account business acquisition initiatives moving towards contract signature that are likely to generate revenue in 2004 and subsequent years – in transition and post-conflict environments, for example. Portfolio

acquisition and delivery continues at an encouraging pace in Afghanistan. Initiatives in support of United Nations system activities for Burundi, Haiti, and Sudan are likely to generate additional income in the remaining months of 2004, and on into 2005.

7. At 30 June 2004, recorded expenditures under the administrative budget stood at $21.43 million, with some $11.94 million expended for staff salaries and entitlements and $9.49 million covering general and administrative expenditures. Expenditure estimates to 31 December 2004 total $44.57 million, including the estimated annual $5 million in payments by UNOPS for services bought from UNDP, the United Nations and the United Nations Board of Auditors. Payments for the Atlas system installation and maintenance are effected under the separate account for Atlas payments approved by the Executive Board at its January 2004 session (see table 1, annexed).

8. In this scenario, 2004 expenditures under the administrative budget will exceed revenues by $5.39 million. However, as illustrated in table 1, UNOPS started 2004 with a fund balance of $23.2 million. Projected 2004 change management and transition initiative expenditures and expenditures related to the installation and operation of the Atlas system, together with the currently projected revenue/recurring administrative expenditure deficit of $5.39 million, would result in an end-2004 fund balance of $7.95 million, including the $6 million operational reserve. However, for the reasons noted above, UNOPS is cautiously optimistic about its ability to narrow the projected gap between revenues and expenditures by the end of 2004.

III. Projection of 2005 business

9. Looking to the future, the total level of new project portfolios acquired so far in 2004 stands at $408.2 million, with 34.9 per cent of funds attributable to World Bank loan funded activities, 59.4 per cent to programmes of the United Nations (with 30.4 per cent attributable to UNDP programmes), and the remaining 5.6 per cent of funds from other sources. The total business portfolio level recorded in the Atlas system currently stands at $860 million. At Atlas rollout in January 2004, project budgets were batch-migrated rather than broken down by yearly budget availability. The ongoing Atlas cleanup is rectifying this situation and making it possible to enter project budgets by yearly budget availability. At a currently projected 2004 delivery of $429 million, the UNOPS 2005 project portfolio budget, on the basis of data recorded in Atlas thus far, would amount to some $431 million.

IV. Report of the United Nations Board of Auditors and the UNOPS response

10. In response to the recently- issued recommendations and concerns expressed in the report of the United Nations Board of Auditors, UNOPS will present its action plan – including an update on progress in its implementation – at the January 2005 session of the Executive Board. The recommendations in the report call for more efficient financial procedures, improved internal controls, and strengthened administrative and management processes. UNOPS concurs with these recommendations. The depth, breadth, and complexity of the UNOPS risk, control and processing challenges mandate that UNOPS management focus strategically on these issues.

11. UNOPS is committed to meeting its existing legal, regulatory, compliance, and contractually obligated responsibilities to serve its clients and reposition its business. UNOPS has focused the Executive Board-approved change management process on ensuring an effective response on the key challenges confronting the organization. These are: (a) to clarify the corporate and business strategies to position the organization toward a value-adding and sustainable future, and (b) to strengthen internal operating systems and control frameworks. Four of the initiatives respond to the principal recommendations of the United Nations Board of Auditors and will strengthen the UNOPS internal control framework around three basic operating principles: (a) reliability and validity of transactions; (b) effectiveness and efficiency of operations, and (c) compliance with applicable rules and regulations. UNOPS will seek the continuous support and guidance of the MCC in the implementation of measures to redress this situation. Annex 2 summarizes the main recommendations of the external audit and the UNOPS response. UNOPS will report further on its response to the Executive Board at its January 2005 session. (Table 2, annexed, summarizes the UNOPS response.)

V. Change management update

12. As previously reported, the UNOPS change plan will require a multi-year management and investment effort. Current and potential clients need to be sure that the new management team is tackling management and systems challenges competently, is addressing the requirements and expectations of clients for quality service delivery, and is adapting its capacities and corporate strategy to the changing market environment.

A. Update on progress achieved in the human resource alignment of the procurement division and client service operations

13. The installation of the new management team was completed on 1 August 2004. In June 2004, UNOPS reported on the establishment of six client service offices: the Asia and the Pacific office, which moved from Kuala Lumpur to Bangkok on 10 September 2004; the Europe, Northern Africa and Western/Central Asia office, currently located in Geneva; the Latin America and the Caribbean office to be established in Latin America in 2005; the Western and Central Africa office in Dakar; the Eastern and Southern Africa Office in Nairobi; and the Division for the Global and Interregional Programme in New York. This structure, established in accordance with the structure reviewed by the Executive Board in its January 2004 session, necessitated a portfolio and human resource alignment process within UNOPS client services.

14. In the realignment of the procurement division and the client services divisions, 194 posts were affected by changes in functions and locations. Of some 20 staff not

selected for posts on completion of the realignment exercise on 31 August 2004, 10 are being deployed on special project assignments thus leaving a total of 11 staff members without assignment who may be separating from the organization.

15. The senior management team selection process and the human resource realignment process point to the urgent need for UNOPS to review the contracting modalities and arrangements for its staff, who serve in a self-financing entity that must be capable of responding flexibly to fluctuations in the demand for its services. To that end, the Division of Human Resources is working on a policy paper examining options for the contractual status of UNOPS staff, the objective being to optimally align contractual arrangements with the UNOPS business model and the self-financing principle of the organization.

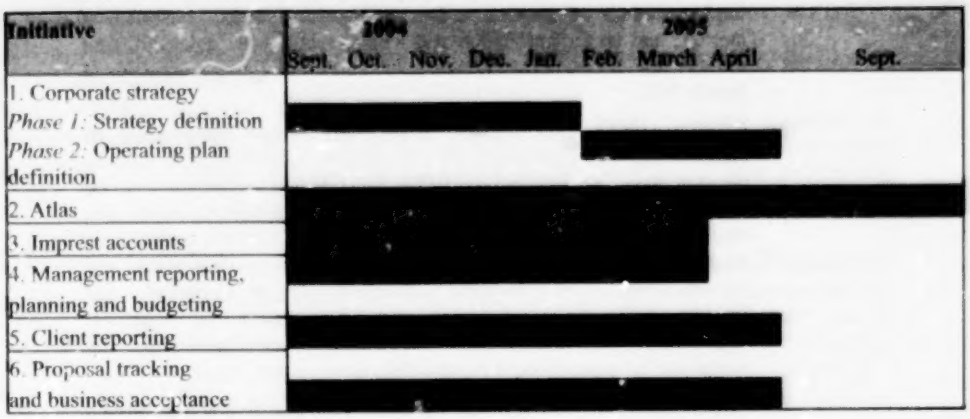
B. Change management key initiatives and priorities: update on progress

16. At its January 2004 session, the Executive Board approved a change management budget of $8.4 million and a $4.1 million allocation to provide for Atlas rollout expenditure. Given the experience of the first phase of the change management process, and taking into account the recommendations of the external audit, the change process has been refocused on six turnaround initiatives, as reported to the Annual Session of the Executive Board in June 2004 and summarized below.

17. The proposed priority change initiatives are expected to be funded over the period 2004-2005, and their indicative funding will have to be scheduled in accordance with funds availability. Table 1 (annexed) indicates the budget allocated to these initiatives in 2004. Planned budget allocations for 2005 will be reviewed towards the end of 2004 when it is clear what the actual revenue/ and expenditure results for the year will be. Figure 2 provides the indicative timeline for completion of these initiatives. The implementation of the initiatives is critical to the improvement of UNOPS' financial systems and to the UNOPS repositioning efforts.

18. UNOPS must respond to clients' concerns about the reliability of UNOPS financial reporting. Initial gains in client reporting will have been achieved by end-September 2004, but a comprehensive reporting system will be fully operational only by April 2005, and prior years' imprest account operations fully cleansed by June 2005. To facilitate these improvements, the Executive Board was informed at its annual session 2004 that resources previously programmed under change initiatives, as approved at the January 2004 Board session, had been reallocated to the adjusted priority tasks.

Figure 2. Timeline for implementation of change management turnaround initiatives



19. The initiatives directly respond to concerns expressed by the United Nations Board of Auditors (Table 2.annexed), while the corporate strategy initiative responds in particular to the urgent need for accelerated business acquisition, diversification and the need to position UNOPS for a sustainable future in the medium term. The initiatives, estimated to cost approximately $5 million over the 2004-2005 period, are:

(a) *Corporate strategy redefinition*. This initiative, to be informed by stakeholder, client and staff consultations, will define a forward-looking corporate strategy together with a new operating plan and will review the location aspects of UNOPS corporate and headquarters services. A fresh look will be taken at all aspects of the UNOPS business model and will include a review of the UNOPS corporate functions and structure subsequent to definition of the new operating plan. The target date for completion of the definition of the new corporate strategy is January 2005.

(b) *ATLAS Wave I rollout*. This initiative is built around three sub-projects: (i) support to on-going production; (ii) completion of Wave I activities; and (iii) definition and alignment of the future information technologies strategy with the overall corporate strategy. This initiative is in progress; the Atlas team is being reconfigured. The target completion date is September 2005.

(c) *Imprest accounting*. UNOPS has already moved all imprest operations from Kuala Lumpur and Geneva to New York. The imprest team is currently working on processing all 2004 imprest accounts. The initiative is built around three sub-projects: (i) stabilization and strengthening of the ongoing reconciliation of 2004 accounts; (ii) completion of prior year reconciliations; and (iii) determination of the future imprest account policy and management strategy. This initiative is in progress; the target date for its completion is March 2005.

(d) *Management reporting, budget and planning*. This initiative is built around three sub-projects: (i) generation of management 'flash' reports on business acquisition, revenue, expenditure, human resource data and status of budget utilization for the change initiatives; (ii) strengthening

of the planning and budgeting process; (iii) development and implementation of service, client and organizational performance metrics; and (iv) identification and implementation of 'quick hit' cost savings. The initiative is in progress; the target date for its completion is March 2005.

(e) *Client reporting*. This initiative is built around four sub-projects: (i) creation and implementation of a short-term workaround to produce detailed client expenditure reports; (ii) development and implementation of a holistic project set-up and quality assurance practices, to ensure data cleanliness of new and existing projects in the UNOPS portfolio of business; (iii) assessment of internal control environments and implementation of required changes; (iv) development and implementation of a longer-term client reporting system. The initiative is in progress and the short-term workaround has become operational. The target date for completion is April 2005.

(f) *Project proposal tracking and acceptance*. This initiative is built around two priorities: (i) integrating the reengineered proposal tracking systems into Atlas, and (ii) strengthening the business review and acceptance process. The target date for completion is March 2005.

20. A small project office will support the implementation of this complex group of initiatives, coordinating and providing daily guidance, while the majority of UNOPS staff resources and management remain focused on day-to-day operations management, business acquisition and related strategic issues. A number of short-term, full-time special assignments are required to ensure that requisite human resources are tasked to the six priority projects. Human resources from within UNOPS will be assigned to these positions and complemented, where required, by external expertise.

VI. Governance and mandate

A. Governance: Management Coordination Committee

21. The final report on the independent review of UNOPS (DP/2003/40), referred to in Executive Board decision 2003/27, calls for the continuation of the MCC with a mandate to provide strategic direction for UNOPS business development. Within the context of the UNOPS overall corporate strategy initiative, UNOPS will explore the case for enlargement of the MCC to better reflect the UNOPS client structure. UNOPS proposes to consult with the MCC on various options for the functioning and composition of the MCC. The goal is to revert to the UNDP/UNFPA/UNOPS Executive Board in January 2005 with concrete proposals.

B. Mandate

22. The reexamination of the role and service scope of UNOPS will take place within the corporate strategy initiative and through intensive stakeholder, client and staff consultations. The context for the review is the changing international aid environment; the rapidly evolving work of the United Nations; the multiple and changing expectations and demands placed on the United Nations system for its effective contribution to the realization of the MDGs; its support to peace-building, security and development in transitional and post-conflict settings; and member state expectations for United Nations reform. This review will not only examine areas for the strengthening of UNOPS service

provision, but will also explore the possible phasing out of service lines where demand is declining or the return is low.

23. In 2004, the Executive Board approved the direct collaboration of UNOPS with two sets of clients:

(a) *Regional and subregional development banks.* UNOPS continues its consultations with the African Development Bank on collaboration in central Africa. Dialogue with the Inter-American Development Bank is focussing initially on prospects in Haiti. UNOPS is submitting several expressions of interest to the Asian Development Bank.

(b) *Host governments: infrastructure and public works.* UNOPS has prepared in-house guidelines for staff, covering work with host governments for infrastructure and public works programmes, to ensure that activities are in compliance with provisions made at the time of approval by the Executive Board of this extension of the UNOPS mandate. Such direct collaboration is being piloted in Afghanistan and is being explored in other transition environments such as Haiti.

Table 1. Projected statement of revenues, expenditures and changes in fund balance for the year ended 31 December 2004
(in millions of dollars)

	January 2004 projection (DP/2004/6)	December 2004 projection (UNOPS management)
Revenues (by type)		
Project portfolio	35.00	15.30
Management services agreement (MSAs)		14.18
Reimbursable service agreement (RSA)		0.50
Service revenue (IFAD)	8.00	8.00
Accounting services revenue (PAPP)		0.20
Other revenue (interest, rental)	1.00	1.00
Total revenues	44.00	39.18
Expenditures (by category)		
Core staff salaries and common costs/benefits		24.60
ALD contract salaries and benefits		1.30
International consultants		1.50
Local consultants		1.30
Total personnel costs		28.70
General operating and administrative expenses		11.15
Total United Nations common services and other transfer payments		4.72
Total expenditures	44.00	44.57
Excess/(Deficit) of revenues over expenditures from ongoing operations	-	(5.39)
Fund balance		
Fund balance, 1 January 2004	23.20	23.20
Add: Excess/(Deficit) of revenues over expenditures	-	(5.39)
Less: Operational reserve	(6.00)	(6.00)
Unallocated fund balances of 31 December 2004	17.20	11.81
Less: Change management		
I. Business development and process improvement	0.70	0.60
II. New systems/technology infrastructure		
(a) E-mail and internet upgrades	0.50	0.50
(b) Knowledge management	0.46	-
(c) Time reporting system	0.24	-
(d) ERP installation and maintenance payments due to UNDP	2.50	2.50
Total new systems/technology infrastructure	3.70	3.00
III. Organizational restructuring: management team		
(a) Leadership development programme & recruitment of new senior management team	0.13	0.42
(b) Team effectiveness, development and training	0.13	0.36
(c) UNOPS internal baseline survey and values alignment	0.05	-
Total organizational restructuring: management team	0.30	0.78
IV. Organizational restructuring: divisions	3.40	3.13
Total change management	8.10	7.51
Less: Turnaround initiatives		
Total turnaround initiatives	0.70	2.35
Total change management and turnaround initiatives	8.80	9.86
Unallocated fund balance as of 31 December 2004	8.40	1.95

Table 2. Summary of United Nations Board of Auditors findings and UNOPS response

Issue	Report finding	Applicable change management initiative(s)	Action(s)	Timeframe	Comments
Imprest account operations	The Board was unable to express an opinion of the UNOPS financial statements for the biennium 2002-2003. The Board was unable to obtain adequate assurance on the imprest account balances, inter-office vouchers, clearing accounts, inter-fund balances and non-expendable equipment. The Board was also unable to confirm that the total value of separation costs was valid, accurate and complete.	1. Imprest Accounting	1.Successful transition of all 2004 imprest account processing to New York for reconciliation 2.Properly staffed, properly supervised, well-controlled and more efficient 2004 day-to-day imprest account processing 3.Full reconciliation with appropriate adjusting journal entries for all imprest accounts from February 2002 to December 2003 4.Cost-effective storage of all imprest records 5.Recommendations and action plan regarding the future of imprest account accounting system 6. Inventory control system for headquarters and all decentralized offices in place	Fourth quarter 2004 Fourth quarter 2004 Second quarter 2005 Fourth quarter 2004 First quarter 2005 Second quarter 2005	UNOPS management recognizes imprest accounting as a risk area. UNOPS has created the Imprest Account initiative to resolve this problem. All paperwork associated with the 2004 processing, reconciling and recording has already been transferred from Kuala Lumpur to New York. UNOPS will review the need for an imprest accounting system given that Atlas is web-enabled.

Issue	Report finding	Applicable change management initiative(s)	Action(s)	Timeframe	Comments
Budgeting and forecasting	1.UNOPS was unable to provide a breakdown of common staff costs of $15.2 million, as per schedule 2 of the financial statements, for biennium 2002-2003. The payroll costs exceeded the related general ledger balances by $1.7 million for 31 out of 37 organizational units.	Atlas; imprest accounting, management reporting, budgeting and planning	1.Atlas stabilization and support to ongoing production 2.Merger of IMIS payroll to Atlas general ledger (GL) 3. Upload of staff costs in imprest to GL	Ongoing Fourth quarter 2004 Fourth quarter 2004	UNOPS management recognizes imprest accounting as a risk area. UNOPS has created the Imprest Account initiative to resolve this problem. All paperwork associated with the 2004 processing, reconciling and recording has already been transferred from Kuala Lumpur to New York. UNOPS will review needs for an imprest accounting system given that Atlas is web-enabled.
Cont'd	2. UNOPS' ability to continue as a going concern is dependent on many variables, for example, an increase in the costs of Atlas, change management costs and further materially unfavourable currency fluctuations.	Management reporting, budgeting and planning initiative	1.Availability of reliable revenue/expenditure reports 2. Budget committee established to track planned vs. actual performance and to formulate sound budget policy for UNOPS	Fourth quarter 2004 Fourth quarter 2004	
Cont'd	3. UNOPS began a reform process in 2003, the success of which is critical to its long-term viability. Given the financial position as at 31 December 2003 and the possible failure to meet its 2004 targets, UNOPS may not be able to fund in full any future deficit from the operational reserve. This may result in the Office having to significantly curtail the scale of its operations.	Management reporting, budgeting and planning; corporate strategy; and project proposal acceptance and tracking	1.Better budget forecasting taking into consideration the UN-BoA identified and other variables 2. Progress report submitted to September 2004 Executive Board session shows anticipated deficit of $5.39 million and a find balances roll forward into 2005 of $7.95 million	Fourth quarter 2004 Completed	

Issue	Report finding	Applicable change management initiative(s)	Action(s)	Timeframe	Comments
Internal control framework	UNOPS implemented a new enterprise resource planning system (Atlas) in January 2004. However, the Board noted several control deficiencies, especially the lack of an independently validated internal control framework.	1. Atlas Initiative	1.Consultant hired to design Internal Control Framework 2. New internal control framework adopted and in place	In progress Fourth quarter 2004	
Business development and acquisition	Although UNDP continued to be the largest client of UNOPS, income from UNDP decreased by 18 per cent to $50.2 million in 2002-2003.	Corporate Strategy; Proposal Tracking and Business Acceptance initiatives	1.Diversification under way with the acquisition of projects from United Nations organizations 2. Executive Board approved work with regional and sub-regional development banks and for infrastructure-public works sector 3.Active business development with IFIs and regional banks 4. Adoption by Executive Board of corporate strategy based on UNOPS niche in infrastructure, public works, area development support in post-conflict and trans transition situations, international procurement and sourcing expertise for other United Nations organizations, IFIs and regional banks	Ongoing Completed	

Issue	Report finding	Applicable change management initiative(s)	Action(s)	Timeframe	Comments
Costing of services	UNOPS did not have a proper system in place to estimate the cost of the services provided, thus exposing it to the risk of accepting projects that may not contribute to the organization's fixed costs	Project proposal tracking and business acceptance	1.Portfolio analysis to identify non-performing projects conducted 2. New criteria and methodology for project acceptance developed and installed 3.High-performing portfolio in place	Ongoing Fourth quarter 2004 Fourth quarter 2005	UNOPS needs to reexamine its existing pricing strategy. In conjunction with the Management Reporting, Planning and Budgeting initiative and the Proposal Tracking and Project Acceptance initiative, pricing methods and existing cost structures will be reviewed.
ICT strategy	UNOPS has not developed a comprehensive information and communication strategy	ICT strategy	1.Development of guidelines and terms of reference for an ICT steering committee 2. ICT steering committee established 3. Mapping and analysis of current infrastructure and software applications 4. Development of a corporate strategy for ICT and integrating the ICT strategy with overall corporate strategy work 5. Establishment of the ICT emergency disaster and recovery plan	Completed Completed	

Issue	Report finding	Applicable change management initiative(s)	Action(s)	Timeframe	Comments
Fixed assets	The Board was unable to express an opinion on the accuracy, completeness and validity of non-expendable equipment as disclosed in note 2C(b) of the financial statements at $10 million.	Development and adoption of UNOPS asset management policy and inventory control system	Ibid.	Third quarter 2005	
After-service health Insurance (ASHI)	Reserves were inadequate to cover end-of-service and post-retirement benefits liabilities of $39.7 million	UNOPS is part of a United Nations working group to determine the proper method of measuring and funding this liability	Ibid.	Ongoing	